



**Statement by Jerry Cartwright
Chairman of the Board
Association of Small Business Development Centers**

**For a Hearing On
*"The State of SBA's Entrepreneurial Development Programs and Their
Role in Promoting an Economic Recovery."***

**In the Committee on Small Business
U.S. House of Representatives**

February 11, 2009

Chairwoman Velazquez, Ranking Member Graves, and members of the Committee, my name is Jerry Cartwright. I am the Chairman of the Board of the Association of Small Business Development Centers (ASBDC) and State Director of the Florida Small Business Development Center network. We appreciate the Committee giving ASBDC the opportunity to offer views at this important hearing on the SBA's entrepreneurial development programs.

The ASBDC members are the 63 State, Regional and Territorial SBDC programs that serve all 50 states, the District of Columbia, Puerto Rico, the Virgin Islands, Guam and American Samoa. The nationwide SBDC network is a partnership that includes Congress, the U.S. SBA, the private sector, and the universities, colleges, community colleges city, county and state governments and chambers of commerce that help fund, host and support the roughly 900 SBDC program's service centers across the nation.

The SBDC national network provides management and technical assistance to an estimated 1.2 million small business owners and aspiring entrepreneurs each year. This includes counseling, training and informational exchanges. Any small business owner or aspiring entrepreneur can go to his or her local SBDC for free, face-to-face business advisement and low cost training on business plans, accessing capital, marketing, procurement assistance, human resource management, regulatory compliance, international trade, business valuation, succession planning, cash flow management, inventory control, overall financial management and more. On line consulting and training are also available within the national network plus a wide range of tools available through our Internet locations.

Madame Chair, small business owners are experiencing the most serious economic conditions most current entrepreneurs have ever known. Certainly economic conditions overall are the worst since the inception of the SBDC program roughly thirty years ago.

Business success is closely tied to sound management, good information and consumer spending; with consumer spending sharply declining by historic norms. Consumer spending is like a three legged stool. It is propped up by income growth, credit availability and personal wealth.

The Commerce Department reported last week that consumer spending fell 1 percent, or \$102.4 billion, in December from November levels. Commerce data confirms that consumer spending in December decreased for the sixth consecutive month. Economists believe this decline is going to continue. That is alarming because consumer spending in the U.S. has not fallen for three consecutive quarters since record-keeping began in 1947. During 2008, inflation-adjusted personal income, excluding government payments, fell 0.9%. This compares to an increase of 2.1% in 2007.

The Federal Reserve's most recent Survey of Senior Loan Officers confirms the continuing tightening of lending standards in the first quarter. According to the Fed's survey, "About 65 percent of domestic banks reported having tightened lending standards on commercial and industrial loans to large and middle-market firms." These changes have had a dramatic impact upon small business.

With the downturn in the housing market and the decline in the stock market, household wealth also has shrunk by as much as \$10 trillion last year.

All three legs of the consumer spending stool declined, it is not surprising the outlook facing millions of small businesses is a serious concern and we applaud your efforts to stimulate the economy through the Stimulus package. The most recent NFIB Small Business Optimism Index reflected the second lowest reading in its 35-year history. Now more than ever before we need to rely upon small business to grow, create jobs and help keep America strong.

Faced with a decline in consumer spending and the credit crunch, small businesses are adjusting operations and may be forced to lay off employees in order to survive.

Small businesses employ roughly 50% of the private sector workforce. Recent job losses are expected to further cut consumer spending, which makes up 70 percent of the nation's economy. With the nation's unemployment rate is 7.6%, the highest since 1992, we need small business strong to rebuild the economy.

Even with all the bleak news in the press, small businesses remain cautiously positive about the opportunities and are positioning themselves to be more efficient and competitive as the economy moves toward recovery. We do not share the gloom and doom that seems to reflect every headline in the press, primarily because we work every day with the small business owners that continue to produce goods and services that America needs.

The economic data cited has the potential to overwhelm millions of small businesses who are working to stay afloat and need the assistance your Committee oversees. Very few small businesses have ever experienced the economic conditions they are experiencing now. Many are not experienced or prepared to take advantage of the significant opportunities you are planning through the Stimulus Package. While credit tightens, millions of small businesses may not be able to fully participate in the stimulus and small business will localize the benefits for our communities.

Many of the tax prescriptions for assisting the small business sector may only be useful to some small businesses. Tax cuts are of value if you are making a profit. Raising expensing levels have value if small businesses have cash or access to credit to spend on plant and equipment. These steps should be a part of the comprehensive proposal to assist small business, but not the whole solution.

Access to credit is critical. Small businesses understand that going deeper into debt is not the solution, but lower loan fees and interest rates will allow small business to make loan payments, access credit and improve their survivability.

SBA lending has declined during the past year. Loans approved under the 7(a) program declined with loan dollars falling. In the 504 program, loan approvals fell by 17 percent and loan dollars declined by 16 percent. In the first quarter of 2009, the SBA's 7(a) program dropped 57% from the first quarter of FY 2008. The total dollar value of loans processed by the SBA was down 40% from last year. Part of these declines is due to falling demand, part is due to tightening credit and part is due to the drying up of the secondary loan market.

In addition to seeing declines in loan volume, the SBA is experiencing mounting losses from loans made through its lending programs. Borrowers in SBA loan programs are struggling to make loan payments similar to the mortgage market. SBA loan losses doubled last year. Commercial banks report that their small business loan portfolios are deteriorating. Bank of America took losses on about 2.9 percent of its outstanding small business loans during the last quarter of 2008. A year ago, the permanent loss rate was about half the current rate, according to the *Wall Street Journal*.

Small business management and technical assistance can make the difference for potentially millions of small businesses. Key management fundamental principles and practices, regarding cash flow management, cost management, inventory control, human resource management, cost effective regulatory compliance, creative marketing, etc. can assist many businesses to survive what would otherwise be failures in difficult times. SBDCs are trying to provide the service capacity they had at the start of this decade, but that capacity has been regularly eroded.

In 2001, the federal appropriation for the SBDC program was \$87,877,000 which would have needed to be \$102,883,080 in 2007 just to have kept pace with inflation (Department of Labor's Inflation Calculator). The appropriation level for FY 2007 was \$87,863,292, which was less than the 2001 appropriation in absolute terms. Even at this level, the SBDC program did better than our partnering federal agency, the SBA. The SBDC national appropriation for FY 2008, due in large part to your advocacy Madam Chair, was \$97.12 million. These additional funds will be distributed in the middle of this fiscal year and start to increase the assistance to the small business sector. However, at this time, state revenues have declined sharply and some State SBDC budgets are being cut by states to help balance budgets.

In my state of Florida for example, current revenues are \$2.5 billion under initial projections. This revenue deficit is expected to increase to almost \$5 billion for FY 2010. Unemployment in parts of Florida is 8.1 percent and our 33 SBDC's are continuing to be overwhelmed with requests from businesses and those unemployed seeking to now start their own business. Many of our SBDC's have reduced their capacity in response to passed-on budget reductions and I have lost the equivalent of 3 full-time professional positions. We are right now undertaking another 7 percent reduction exercise in preparation for continuing bad revenue news which will further reduce our capabilities.

In 2001, SBDCs nationwide provided one-on-one consulting services to 254,490 clients. Last year, consulting services were provided to only 194,716 clients because of past stagnant support for services. That's 60,000 small business owners and entrepreneurs that weren't assisted. We submit to this Committee that this is not due to declining demand but declining capacity. In FY 2006, SBDC were able to provide training to 667,276 small business owners and aspiring entrepreneurs. In FY 2008 the program's training numbers declined to 558,487. Part of the decline in training is due to a focus on in-depth consulting for businesses facing challenges and part of it is due to reduced service centers and losses of consultants and trainers.

For example, the SBDC State Director in Georgia who serves with me on the ASBDC Board of Directors advised me that between 2001 and 2007 the Georgia SBDC was forced to close three locations (one urban, two rural), dropped 4 business consultant positions, 4 economic development/business consultant positions (which focused on entrepreneurial activity primarily in rural areas), and eliminated his Associate State Director, Director of Continuing Education, and head of women's outreach".

At this time, we are preparing for more unemployed Americans considering self-employment to sustain their families and more existing business owners are searching for solutions to problems and to identify new opportunities and markets to sustain and grow their businesses.

The critical issue is the management decisions these small business owners and aspiring entrepreneurs will make in an economic and business environment with which they are unfamiliar? Dun and Bradstreet data suggests that the major reason small businesses fail is bad management decisions. Millions of small business owners have had little business management education and need to correctly analyze conditions they have never experienced. Small business owners know how to repair an automobile, build quality cabinetry, repair a computer, and build a control device or dry clean clothes. But they have little training or experience in how to manage a business in times like these.

An increasing number of small business owners and unemployed Americans are seeking advice and assistance from the management and technical assistance programs that are struggling to retain service capacity due to years of flat or declining funding that has not kept up with inflation let alone re-tool for the global economy. Our national network is sharing resources that improve our services and

deliver the best quality assistance to our small business clients given the resources we are working with.

Just the other day, many of us were talking about the current response to this economic downturn being very similar to our efforts in response to man-made and natural disasters. Whether it was the response to 9-11 in New York, the hurricanes of Florida, Louisiana, the Carolinas and Mississippi or the fires in California, SBDCs have worked to become the small business 'first responder'. We commit to you that we will do our best with whatever resources we have to provide the needed services for small businesses to survive and grow.

Many of the small business owners who may face the most difficult decisions in this economy are women business owners and minority business owners. SBDCs have been actively engaged in successful outreach to these segments of the small business economy for years and have earned the trust and confidence of women and minority entrepreneurs over the past thirty years. **Forty-six percent of SBDC consulting clients in FY 2008 were women.** This compares favorably to the roughly one-third of small business owners who are women. **Nearly thirty-five percent of SBDC consulting clients in FY 2008 were minorities,** once again exceeding the percentage of small business owners who are minorities.

As policy makers, you decide the public policy priority of small business management assistance. Our program is the leader of SBA's three management and technical assistance programs, SBDCs, SCORE or Women's Business Centers. We appreciate this Committee's support and look forward to your leadership in restoring the Agency's (SBA) stature as the leader in small business services as well as financing tools, that leadership is needed now more than ever.

The SBDC program and services facilitate access to capital (often relying upon SBA tools), small business procurement and services to the under-served or minority business community. These three areas represent our priorities for the next year while continuing to build the capacity to help our small business sector with their future needs as we emerge from this economic downturn and help lead the nation's economy to the forefront of the global economic resurgence.

The most recent study of the economic impact of SBDC services provides numbers that help justify an increased investment in SBDC management and technical assistance.

In 2007, the nationwide SBDC network helped in-depth small business clients (that is, clients who received five or more hours of SBDC consulting during the year) to:

- **create 73,377 new full time jobs; save an additional 76,820 jobs;**
- **generate nearly \$7.2 billion in new sales;**
- **preserve approximately \$8.8 billion in sales;**
- **obtain nearly \$3.627 billion in financing; and,**
- **generate approximately \$219.8 million in new Federal revenues and \$ 340.5 million in new state revenues as a result of direct economic growth generated by SBDC clients.**

These are survey responses provided by SBDC clients themselves in a confidential survey of all in depth SBDC clients conducted by Dr. James Chrisman of Mississippi State University. The survey data are generated from figures clients themselves directly attribute to the assistance received from their local SBDC.

These are a result of a modest federal investment of approximately \$97.12 million in management and technical assistance, where SBDC in-depth clients generated nearly \$220 million in additional Federal revenues due to increased economic activity that the small business owner attributed to SBDC assistance. That is \$2.26 in revenue for every federal dollar expended, nationally.

If we assume an average unemployment check of \$300 per week for each of those workers whose job was saved and an average of 13 weeks of unemployment benefits (the average weeks of unemployment during the last recession) savings in unemployment benefits for federal government and state governments equate to \$300 million dollars.

SBDC in-depth clients attributed an estimated 73,000+ new jobs to the SBDC assistance they received. That works out to a cost of \$1,323 per job created. By comparison, Nobel Prize winning Princeton economist Paul Krugman, who is an advocate of the President's stimulus package, estimates that, "The true cost per job ... will probably be closer to \$100,000 ... and the net cost will be as little as \$60,000 once you take into account the fact that a stronger economy means higher tax receipts." This helps underscore the efficiency of job creation through the small business sector and advisement assistance.

Madam Chair your Budget Views and Estimates letter last year indicated that \$140 million in funding would be an "appropriate" level for the SBDC national program for FY 2009. ASBDC is extremely appreciative of the confidence in the SBDC program that letter reflected. Your active support of increased SBDC funding no doubt played a critical role in the decision of the Financial Services Appropriations subcommittee under the leadership of Chairman Serrano to recommend \$110 million for the ASBDC program for FY 2009. If Congress approves this level, it will aid greatly in restoring capacity lost during most of this decade. In light of the current economic crisis facing America's small business sector, a funding level corresponding to the current authorized level would allow SBDC's to increase the level and scope of assistance that we believe is required to meet the needs of the small business sector during the current economic crisis.

We believe more can be done for small business constituencies and with enhanced resources, new and more innovative approaches for addressing small business needs will be developed by the SBDC network. We are eager to work with Congress and the Administration to expand and the traditional fundamental programs which have proven so successful and deliver on the future opportunities which will be important in globalization.

The crisis facing the nation and small business is judged to be the greatest challenge of the past half century requiring the rapid deployment of needed services to the small business sector to assist America's engine of economic and job growth. By expanding the SBDC service network capacity, essential information, analysis and business decision-making tools will be more readily available to the small business sector to improve survivability, efficiency and growth.

The SBDC program, in response to the national priorities to stimulate the economy and ease the financial crisis, is proposing to allocate 75-80% of all incremental funding support to the urgent needs of the small business sector. The recent financial crisis combined with the economic recession and stimulus package(s) have necessarily caused the program to adjust priorities in meeting the needs of the small business sector. Three (3) areas of priority have been identified as immediate and needed actions for information, business advisement and training to respond to the current challenges confronting the domestic small business economy.

Capital Access: Access to capital is regularly one of the most dynamic and challenging aspects of growing or establishing a successful small business. In normal times, capital markets can be confusing and discouraging. The capital environment has been dramatically exaggerated by the

current fiscal crisis, resulting in small business owners and entrepreneurs having little or no access to options, often accepting the publically held belief that capital is not available. National priority would be placed upon informational seminars, working with potential borrowers to improve financial presentations and facilitating non-traditional as well as historical lending sources.

Procurement Assistance: The Stimulus Package(s) are designed to boost spending, often through public works, shovel-ready projects in the nation. Government contracting/procurements have a rapid and extensive impact upon the economy designed to be a quick stimulus. In order to maximize small business involvement with the package, SBDCs propose to prioritize assistance by preparing small businesses to be project ready as subcontractors and smaller primes through training and business advisement, especially in the construction trades. Small businesses are often limited in procurement opportunities due to a lack of bonding and secured financing, making otherwise eligible small businesses non-responsive or unprepared to bid upon projects. By increasing small business participation, projects within the Stimulus Package will have greater localized impact upon communities, capturing more expenditure locally and 'churning' more dollars within the areas.

Under-served/Minority Small Businesses: The recent expansion of entrepreneurship within the under-served community creates a significant number of comparatively newer businesses within the minority community (African American, Hispanic, Women, etc.). Analysis indicates that these businesses may be at greater risk in the downturn, so the SBDC program intends to target outreach and informational to the under-served community. These efforts will be designed to improve the survivability and continued growth of these firms. Many of these business owners have not experienced an economic contraction and seek business assistance in analyzing the impact of the contraction on their businesses and plans. In order for these firms to survive and help lead the recovery, SBDCs would prioritize increase public awareness of the challenges as well as the opportunities that exist within the economy.

Again, we are eager to deliver quality service offerings at the quantity levels needed and look forward to working with this Committee and SBA to strengthen and improve a program that has well served the small business community, the economy and the taxpaying public for nearly thirty years.

ASBDC thanks the Committee for allowing us to present to the Committee today. I would be pleased to try and respond to any questions the Committee may have.